Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author:	Cardoza	Analyst:	LuAnna Hass	Bill Number:	AB 426
Related Bills:	See Legislative History	Telephone:	845-7478	Amended Date:	July 21, 2001
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: HRA/Increase Household Income Amounts

SUMMARY

This bill would increase the household income amounts used to determine eligibility and the amount of assistance for the Homeowners and Renters Assistance (HRA) program. This bill would affect approximately 300,000 pending claims that have been submitted to the department by senior and disabled claimants.

This bill also would make changes to provisions of the Revenue and Taxation Code (R&TC) relating to sales tax. These changes do not affect the department and are not discussed in this analysis.

SUMMARY OF AMENDMENTS

The July 21, 2001, amendments would remove the legislative intent language regarding statutory changes that are needed to implement the Budget Act of 2001 and replace it with language discussed in this analysis.

This is the department's first analysis of this bill.

PURPOSE OF THE BILL

According to legislative committee staff, the purpose of this bill is to increase the amount of assistance for current claimants of the HRA program.

EFFECTIVE/OPERATIVE DATE

As an urgency statute, this bill would be effective upon enactment and apply to claims filed for the 2001 claim year.

POSITION

Pending.

Board Position:			Department Director	Date
______ S	______ NA	______ NP		
______ SA	______ O	______ NAR	Gerald H. Goldberg	08/17/01
______ N	______ OUA	__X__ PENDING		

ANALYSIS

STATE LAW

State law authorizes the Franchise Tax Board (FTB) to administer several non-tax programs, one of which is the HRA program.

For HRA claimants, existing state law provides partial reimbursement of the previous fiscal year's property taxes on a personal residence paid directly by a homeowner and indirectly by a renter. Relief for homeowners and renters is based on a percentage of the amount of property tax paid in a given year. The percentage on which the reimbursement amount is based varies inversely with the applicant's income level and ranges from 4% to 96%.

Currently, to be eligible for assistance, claimants must be 62 years of age, blind, or disabled. In addition, currently the claimant's total household income for the prior calendar year cannot exceed an inflation-adjusted maximum amount, which is $35,251. Total household income consists of adjusted gross income (as computed for tax purposes) increased by income that is nontaxable for California tax purposes. Also, currently the gross household income cannot exceed an inflation-adjusted maximum amount, which is $64,093. Gross household income is total household income plus all non-cash business expenses such as depreciation, amortization, and depletion.

Claimants may file for assistance from July 1st through October 15th, inclusive. However, FTB may accept claims through June 30th of the year following the year for which assistance is claimed.

SB 1664 (Stats. 2000, Ch. 60) provided a one-time increase of 150% in homeowners and renters assistance payments for low-income seniors and disabled individuals for claims filed for the 2000 claim year. For only one year this increase raised the maximum homeowners assistance from $326.40 to $816 and the maximum renters assistance credit from $240 to $600.

THIS BILL

This bill would require that all income levels eligible for homeowners and renters assistance for the 2001 calendar year be multiplied by 1.45 in addition to the annual inflation adjustment. As a result, the maximum total household income amount for 2001 would increase to $51,114, and the maximum gross household income amount would increase to $92,935.

IMPLEMENTATION CONSIDERATIONS

This bill would increase the income levels eligible for assistance under the HRA program by 45%. The department would experience an increase in the volume of individuals claiming assistance, which would have a major impact on the department's programs and operations. HRA claimants tend to call the department's service center and visit the department's district offices at a rate higher than average.

The changes that would be made by this bill would be effective immediately, thus affecting the 2001 HRA year. Since the HRA booklets for the 2001 claim year have already been printed and mailed, revised booklets may need to be printed and mailed.

It appears to have been the author's intent to increase the current claimants' assistance amounts under this program by 45%, instead of increasing eligible income levels. The department understands that future legislation may be enacted to be consistent with the author's intent. Since approximately 300,000 claims have already been submitted to the department and are in various stages of process, the department has studied how to process claims in a manner that will minimize inconvenience and confusion for claimants and how to implement this bill consistent with the author's intent.

To accomplish this goal, the department proposes to issue two checks to the claimants. Issuance of the first check would reflect the amount as calculated in the current HRA claim booklet. Due to programming changes that are needed to enable the system to issue multiple checks for claimants, the second check would be issued later this calendar year or early next year, and would reflect the additional assistance amount as a result of either this bill or legislation enacted to reflect the intent of this bill. A notice would accompany the second check explaining the delay and the basis of the check.

AB 440 (Cardoza, 2001/2002) would appropriate an additional $75 million into the general fund to pay additional claims for the HRA program based on the author's intent of increasing current claimant's assistance amounts by 45%. As discussed below in "Economic Impact," this bill would increase the income thresholds and result in a revenue loss of approximately $30 million, resulting in $45 million in over-funding.

If future legislation is enacted to increase assistance amounts by 45% and the provisions of this bill increasing the income thresholds by 45% **ARE NOT** repealed, the $75 million appropriated under AB 440 will not be sufficient to pay the increase in claims the department will receive.

LEGISLATIVE HISTORY

AB 1036 (Pescetti, 2001/2002) would allow mobile homeowners that pay real estate property taxes to file a claim for either homeowners or renters assistance. This bill is in the Senate Revenue and Taxation Committee. AB 385 (Strickland, 2001/2002) would increase the homeowners maximum property value, the renters property tax equivalent, and the household income amounts. This bill is in the Assembly Revenue and Taxation Committee. SB 218 (Dunn, 2001/2002) and SB 854 (Brulte, 2001/2002) would provide an increase of 150% for all future claims that are filed beginning with the 2001 claim year. SB 854 is in the Senate Revenue and Taxation Committee and SB 218 is in the Assembly Revenue and Taxation Committee.

SB 1664 (Karnette, Stats. 2000, Ch. 60) provided a one-time 150% increase for claims filed for the 2000 claim year and changed the filing dates to submit claims. AB 1636 (Mazzoni, Stats. 1999, Ch. 928) provided that the term "residential dwelling" be expanded to include houseboats and floating homes. SB 1464 (Brulte, 1997/1998) proposed increasing the income limits for the HRA program to properly reflect inflation. This bill remained in Assembly Appropriations, but identical language was enacted in the 1998 Budget Bill, AB 2797 (Machado, Stats. 1998, Ch. 322).

OTHER STATES' INFORMATION

Review of *Colorado, Florida, Illinois, Massachusetts, Michigan, Minnesota,* and *New York* laws found that only *Colorado* and *Minnesota* have programs that are comparable to the HRA program in California.

Colorado residents that meet certain qualifications are eligible for a grant equal to the amount of the property taxes paid on a residence or mobile home. These qualifications include:

- the taxpayer must be at least 65 years of age or disabled,
- is not claimed as a dependency exemption by another person for Colorado income tax purposes, and
- has income from all sources for the taxable year of less than $11,000 if single, or in the case of a husband and wife, less than $14,700.

Minnesota provides a property tax refund, regardless of age, to homeowners and renters whose property taxes are disproportionately high in comparison with their income. If the property tax exceeds an income percentage threshold, a refund is issued that is equal to a percentage of the tax over that threshold.

FISCAL IMPACT

It is anticipated that approximately 100,000 additional claims would be received as the bill is currently drafted. The department would incur additional costs relating to the processing of claims, additional calls to the service center, marketing, printing, and postage. These additional costs to the department are estimated to be $1.2 million, which does not include the costs associated with district office claimant assistance.

However, if future legislation is enacted to increase the payment amount by 45% and repeal the household income eligibility figures to present levels, it is anticipated that the department would incur costs of approximately $200,000 to implement this bill. The costs are associated with programming changes needed to allow the system to issue two checks per claimant. The department would incur additional costs associated with calls to the service center and district office claimant assistance. These costs are unknown, but anticipated to be significant.

ECONOMIC IMPACT

This bill would increase the **income levels** eligible for assistance by 45%. The resulting revenue loss to the state is estimated to be $30 million. Approximately $5 million would be attributed to an increase in the number of claims filed because of the increased revenue thresholds in this bill. The remaining $25 million would be attributed to the increase some claimants would receive because of the larger percentage of assistance.

If future legislation is enacted to increase the payment amount by 45% and repeal the household income eligibility figures to present levels, the revenue loss would be approximately $75 million, which is equivalent to the appropriation provided in AB 440 (Cardoza, 2001/2002).

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